

Price Discovery and Importance of Hedging in view of Forecasted Price Trends

Jeffrey Tan

**General Manager, Product & Market Development
Bursa Malaysia Derivatives Berhad**

3rd International Palm Oil Trade Fair & Seminar 2010

The Royale Chulan, Kuala Lumpur

3-5 October 2010

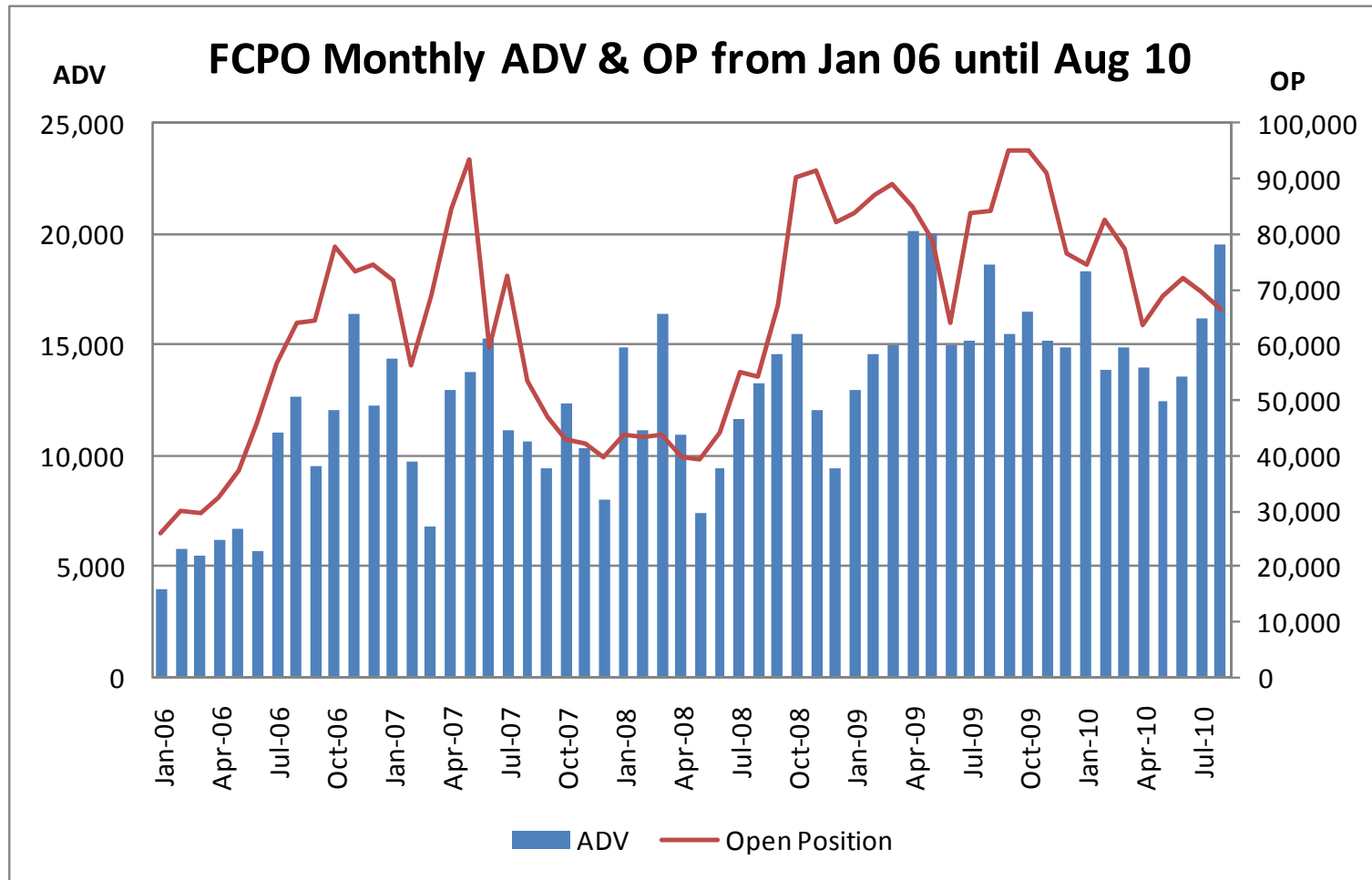
Overview of the Malaysian Palm Oil Derivatives Market

- Crude palm oil futures contracts have traded since 1980, and Bursa Malaysia Derivatives Berhad has provided a viable market for price discovery, risk management and speculation purposes
- Since 2009, the Chicago Mercantile Exchange Group owns 25% of Bursa Malaysia Derivatives with the remaining 75% owned by Bursa Malaysia Berhad
- BMD's palm oil contracts now trades electronically on CME's Globex trading system since 20 Sep 2010. Globex is the world's first global electronic trading platform for futures contracts (80+ locations, a million user)

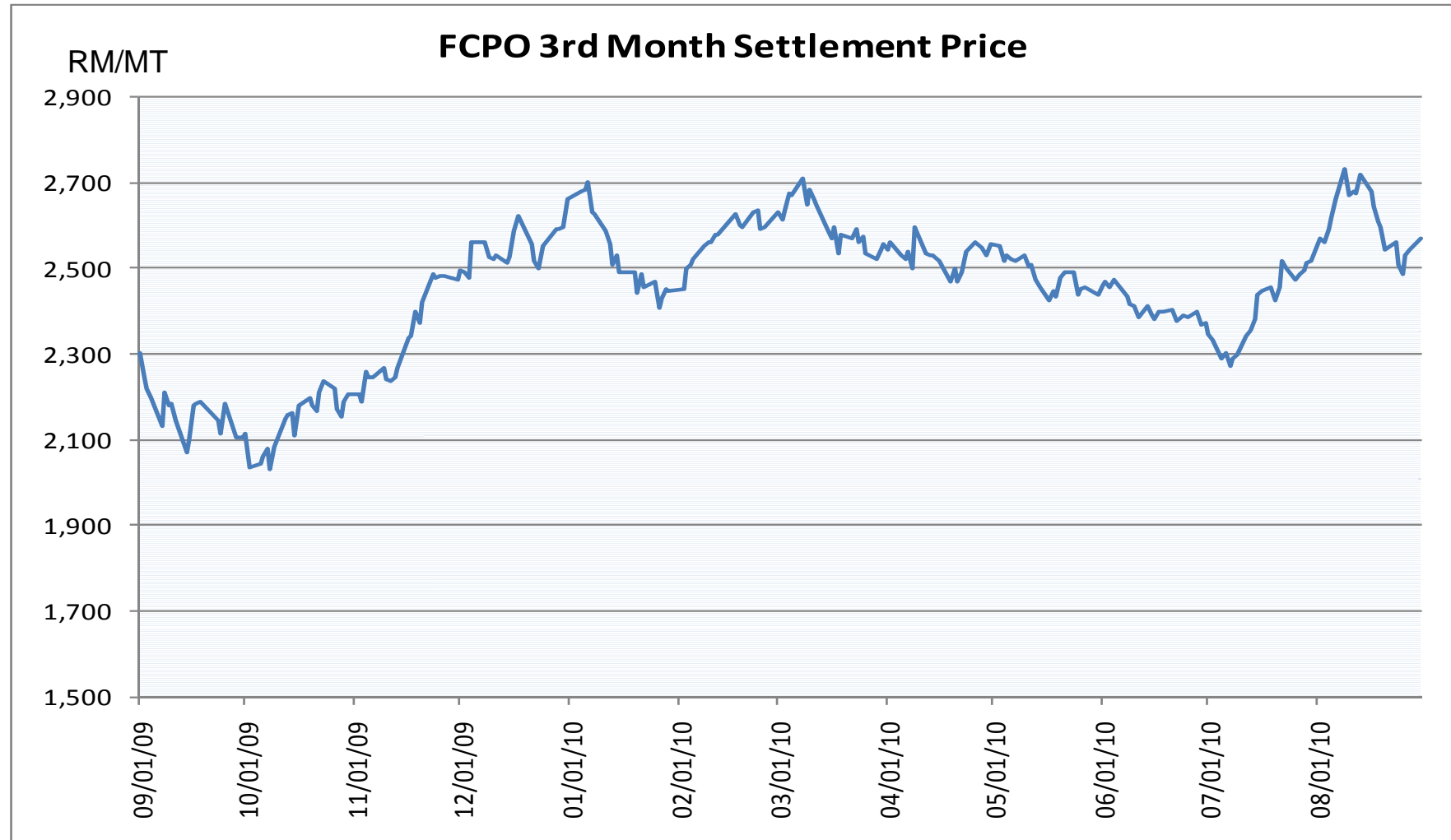
Palm Oil Derivatives Products Offered

- **Malaysian Ringgit-Denominated Crude Palm Oil Futures**
- **Crude Palm Kernel Oil Futures**
- **USD-Denominated Crude Palm Oil Futures**
- Kuala Lumpur Composite Index Futures
- Kuala Lumpur Composite Index Options
- Single Stock Futures
- 3-Month KLIBOR Futures
- 3-Year Malaysian Government Bond Futures
- 5-Year Malaysian Government Bond Futures
- 10-Year Malaysian Government Bond Futures

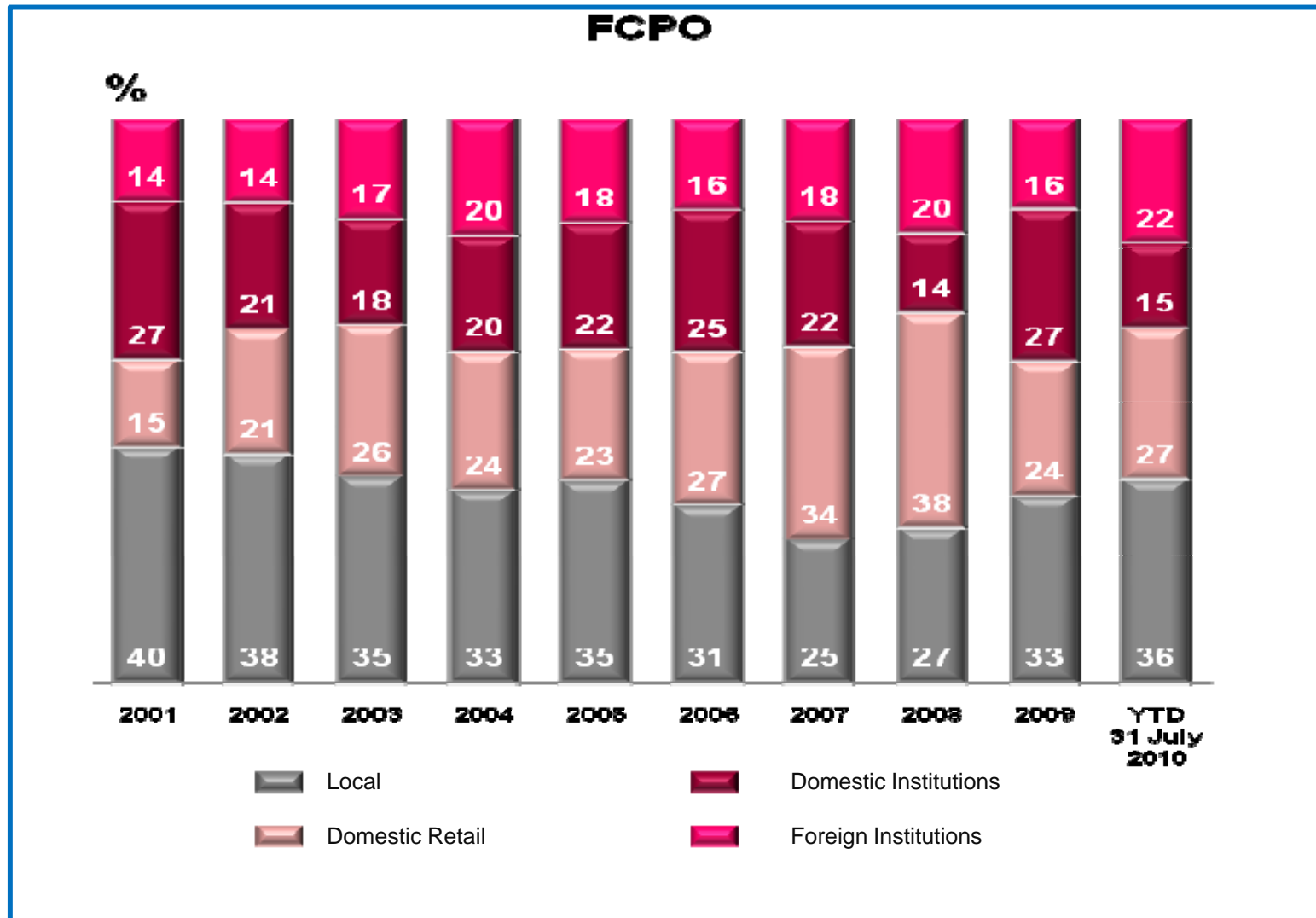
Palm Oil Average Daily Volume & Open Position



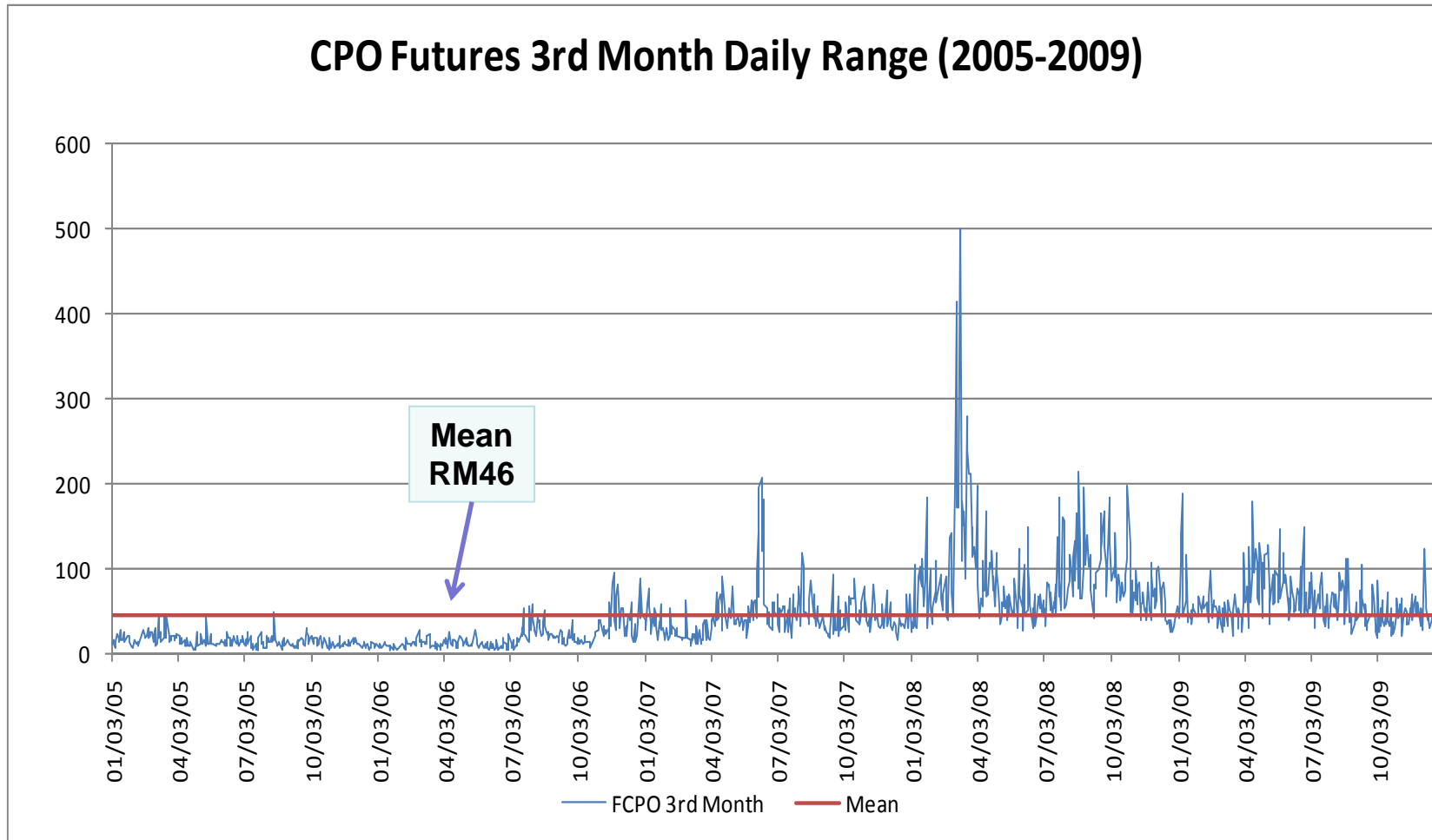
Palm Oil Price Trend (Sep 09 – Aug 10)



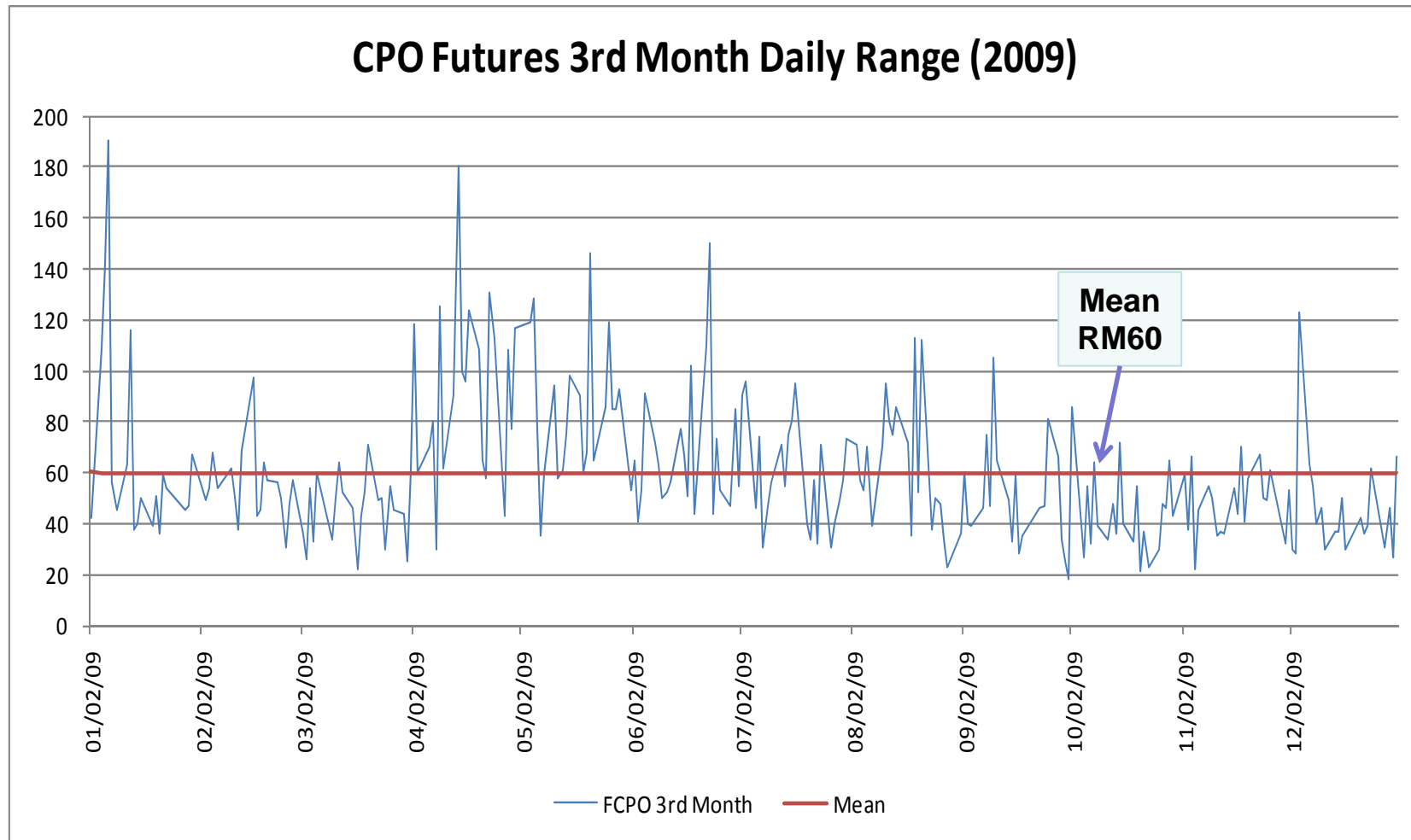
Composition of Palm Oil Participants



CPO Futures 5-year High Low Range



CPO Futures 1-year High Low Range



Screen Shot of a Typical Trading Day

MONTH	OPEN	HIGH	LOW	BID	ASK	LAST	SETT.P	CHANGE OI	VOLUME	
Oct 2010	2690.00	2695.00	2690.00	2660.00	0.00	2692.00	2740.00	-48.00	600	28
Nov 2010	2654.00	2679.00	2654.00	2651.00	2673.00	2659.00	2729.00	-70.00	12369	904
Dec 2010	2655.00	2687.00	2653.00	2665.00	2667.00	2665.00	2733.00	-68.00	26284	5,259
Jan 2011	2666.00	2694.00	2664.00	2674.00	2698.00	2675.00	2741.00	-66.00	14975	860
Feb 2011	2688.00	2691.00	2683.00	0.00	2800.00	2691.00	2746.00	-55.00	1867	98
Mar 2011	2690.00	2692.00	2690.00	0.00	2800.00	2692.00	2752.00	-60.00	2259	10
May 2011	0.00	0.00	0.00	2685.00	0.00	0.00	2749.00	0.00	0	0
Jul 2011	0.00	0.00	0.00	0.00	0.00	0.00	2760.00	0.00	0	0
Sep 2011	0.00	0.00	0.00	0.00	0.00	0.00	2754.00	0.00	0	0
Nov 2011	0.00	0.00	0.00	0.00	0.00	0.00	2758.00	0.00	0	0
Jan 2012	2680.00	2680.00	2680.00	2670.00	0.00	2680.00	2759.00	-79.00	2369	20
Mar 2012	2680.00	2680.00	2680.00	2670.00	0.00	2680.00	2760.00	-80.00	2272	30
May 2012	0.00	0.00	0.00	2680.00	0.00	0.00	2755.00	0.00	2293	0
Jul 2012	0.00	0.00	0.00	0.00	0.00	0.00	2755.00	0.00	0	0
Sep 2012	0.00	0.00	0.00	0.00	0.00	0.00	2755.00	0.00	0	0

Crude Palm Oil Futures – Contract Specifications

Contract Code	FCPO
Underlying Instrument	Crude Palm Oil
Contract Size	25 metric tons
Minimum Price Fluctuation	RM1 per metric ton
Contract Months	Spot month and the next 5 succeeding months, and thereafter, alternate months up to 24 months ahead
Trading Hours	First trading session: Malaysian 10:30 a.m. to 12:30 p.m. Second trading session: Malaysian 3:00 p.m. to 6:00 p.m.
Speculative Position Limits	500 contracts net long or net short for the spot month 5,000 contracts for any single delivery month except for the spot month 8,000 contracts for all contract months combined
Final Trading Day and Maturity Date	Contract expires at noon on the 15th day of the delivery month, or if the 15th is a non-market day, the preceding Business Day.
Tender Period	1st Business Day to the 20th Business Day of the delivery month, or if the 20th is a non-market day, the preceding Business Day.

Crude Palm Oil Futures – Contract Specifications

Daily Price Limits

Except for spot month trades, trades in any month shall not be made at prices more than 10% above or below previous day's settlement prices ("the 10% Limit") except as provided below. When at least 3 non-spot month contracts are trading at the 10% Limit, there shall be a 10-minute cooling off period for all contract months (except the spot month) during which trading shall only take place within the 10% Limit. Following this cooling off period, all contract months is specified as interrupted for a period of 5 minutes, after which the trades for all contract months (except the spot month) shall not vary more than 15% above or below previous day's settlement prices ("the 15% Limit").

If the 10% Limit is triggered less than 30 minutes before the end of the first trading session, the following shall apply:-

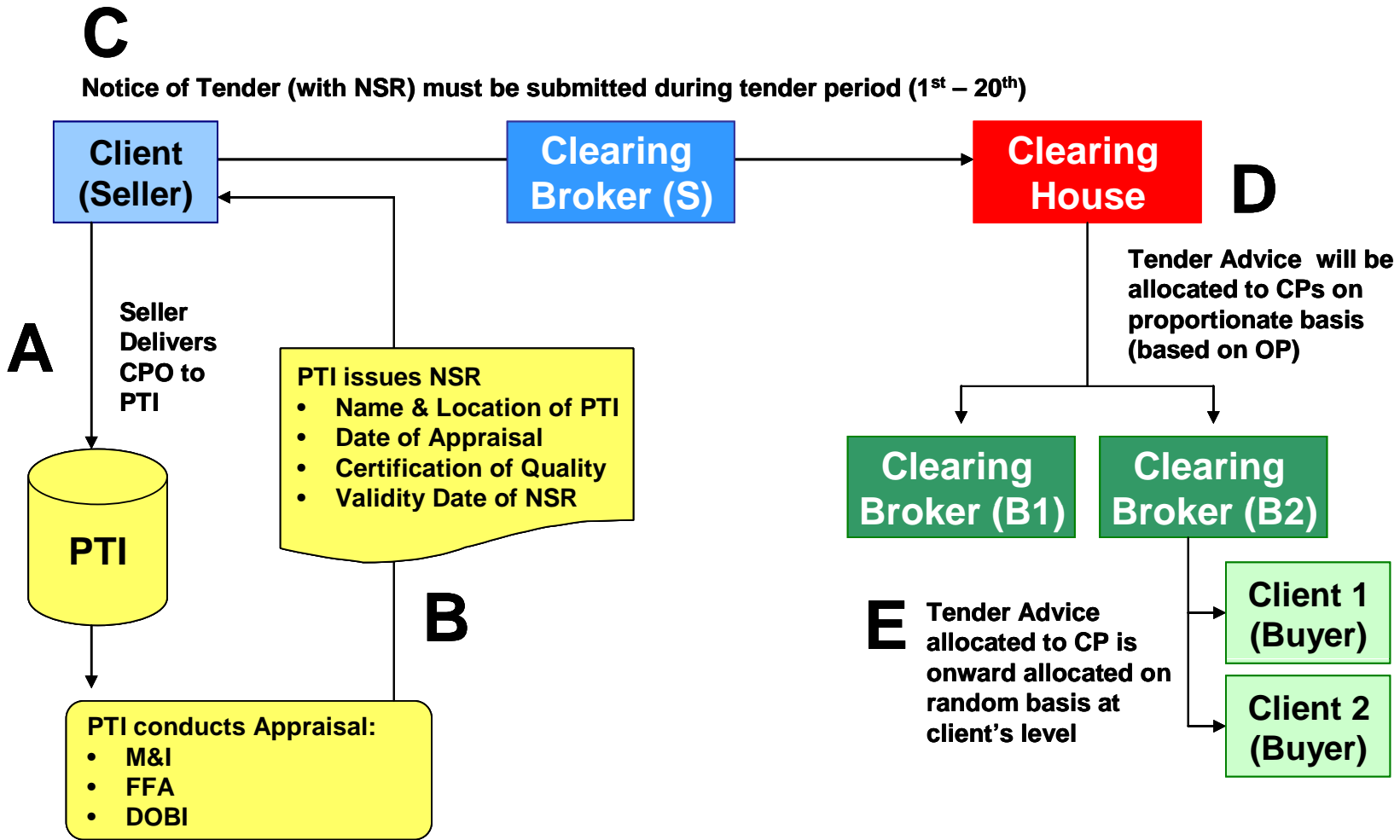
- a. the contract months shall not be specified as interrupted;
- b. the 10% Limit shall be applied to all contract months (except the spot month) for the rest of the first trading session; and
- c. the 15% Limit shall be applied for all contract months (except the spot month) during the second trading session.

If the 10% Limit is triggered less than 30 minutes before the end of the second trading session, the 10% Limit shall be applied to all contract months (except the spot month) for the rest of the day.

Crude Palm Oil Futures – Contract Specifications

Contract Grade and Delivery Points	<p>Crude Palm Oil of good merchantable quality, in bulk, unbleached, in Port Tank Installations approved by the Exchange located at the seller's option at Port Kelang, Penang/Butterworth and Pasir Gudang (Johor).</p> <p>Free Fatty Acids (FFA) of palm oil delivered into Port Tank Installations shall not exceed 4% and from Port Tank Installations shall not exceed 5%</p> <p>Moisture and impurities shall not exceed 0.25%.</p> <p>Deterioration of Bleachability Index (DOBI) value of palm oil delivered into Port Tank Installations shall be at a minimum of 2.5 and of palm oil delivered from Port Tank Installations shall be at a minimum of 2.31.</p>
Deliverable Unit	<p>25 metric tons, plus or minus not more than 2%.</p> <p>Settlement of weight differences shall be based on the simple average of the daily Settlement Prices of the delivery month from:</p> <ol style="list-style-type: none"> a. the 1st Business Day of the delivery month to the day of tender, if the tender is made before the last trading day of the delivery month; or b. the 1st Business Day of the delivery month to the Business Day immediately preceding the last day of trading, if the tender is made on the last trading day or thereafter.

FCPO is a physical delivered futures contract



Delivery Process

- A. Seller deliver the Crude Palm Oil to a Port Tank Installation (“PTI”) located at one of the delivery points
- B. PTI conduct appraisal on the quantity and quality of the CPO. If meet requirements, PTI will issue a Negotiable Storage Receipt (NSR) to the Seller

The NSR stipulates:

- Name and Location of PTI Owner
- Date of appraisal
- Certification of quality of oil
- Validity date of the NSR (valid for delivery month only)

Delivery Process

- C. Sellers submit Notice of Tender for delivery of CPO during the tender period (1st – 20th of spot month). All Notices of Tenders accompanied by Negotiable Storage Receipts (NSR). Notice of Tender must be submitted to the Clearing House by 12.00 p.m. for same day processing
- D. Based on the number of Notice of Tenders received, the Clearing House will allocate Tender Advice to the respective Buyers on a proportionate basis (based on number of open positions)

The Clearing House will broadcast the delivery allocation message and transmit the report electronically by 4.00 p.m.

- E. Tender Advice is then allocated on a random basis at client's level. The client will have to give a minimum of 3 days notice to the tank owner of his intention to collect the oil once he has the NSR

Physical Tender Summary (For year 2009)

Month	Tender	Retender	TOTAL
Jan	925	96	1,021
Feb	1250	0	1,250
Mar	320	0	320
Apr	359	4	363
May	235	9	244
Jun	1951	350	2,301
Jul	178	0	178
Aug	248	20	268
Sep	186	13	199
Oct	116	84	200
Nov	133	28	161
Dec	1068	94	1,162
TOTAL	6969	698	7,667

LOCATION				
Butterworth	Port Klang	Pasir Gudang	TOTAL	MT
0	625	300	925	23,125
150	960	140	1250	31,250
0	320	0	320	8,000
219	140	0	359	8,975
0	235	0	235	5,875
200	731	1020	1951	48,775
0	178	0	178	4,450
0	248	0	248	6,200
0	186	0	186	4,650
46	70	0	116	2,900
43	90	0	133	3,325
184	884	0	1068	26,700
842	4667	1460	6969	174,225

* summary above does not include retender.

Physical Tender Summary (For year 2010)

Month	Tender	Retender	TOTAL	LOCATION			TOTAL	MT
				Butterworth	Port Klang	Pasir Gudang		
Jan	1110	633	1,743		646	464	1110	27,750
Feb	258		258		178	80	258	6,450
Mar	240		240		240		240	6,000
Apr	1311	134	1,445	278	160	873	1311	32,775
May	226	220	446	111	115		226	5,650
Jun	1155		1,155	120	479	556	1155	28,875
Jul	1797	14	1,811	498	579	720	1797	44,925
Aug	680	83	763	126	523	31	680	17,000
Sep	520		520		340	180	520	13,000
Oct			-					
Nov			-					
Dec			-					
TOTAL	7297	1084	8,381	1133	3260	2904	7297	182,425

* summary above does not include retender.

Approved Port Tank Installation Owners

Butterworth Bulking Installation Sdn Bhd	FIMA Palmbulk Services Sdn Bhd	Wilmar Bulking Installation Sdn Bhd
Cargill Palm Products Sdn Bhd	FIMA Bulking Services Bhd	Palmco Oil Mill Sdn Bhd
Felda Bulkiers Sdn Bhd	Golden Hope Latex Sdn Bhd	Simit Bulking Installation Sdn Bhd
Felda-Johore Bulkiers Sdn Bhd	Kuala Lumpur Kepong Bhd	Pacific Oils & Fats Industries Sdn Bhd
Felda Palm Industries Sdn Bhd	Socship Company Bhd	

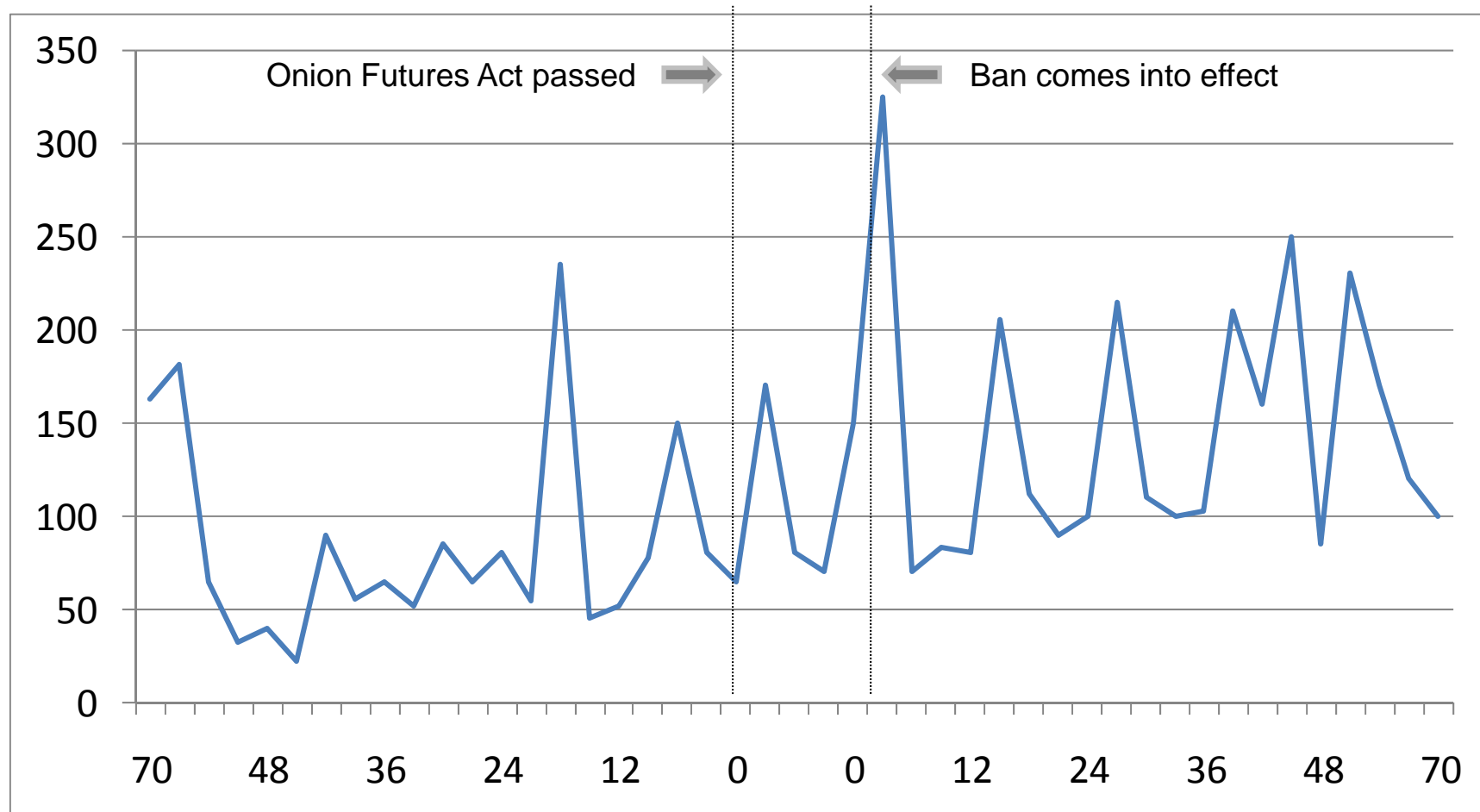
Financialization of Commodity Futures

1. US formed an Inter-agency Task Force* on Commodity Markets
2. Assessment ... “increase in oil prices largely due to fundamental supply and demand factors...”
3. “Most speculative traders alter positions following price changes, suggesting responses to new information – expect in an efficiently operating market”

* Comprises Commodity Futures Trading Commission, Department of Agriculture, Energy and Treasury, the Board of Governors of the Federal Reserve System and the Securities & Exchange Commission

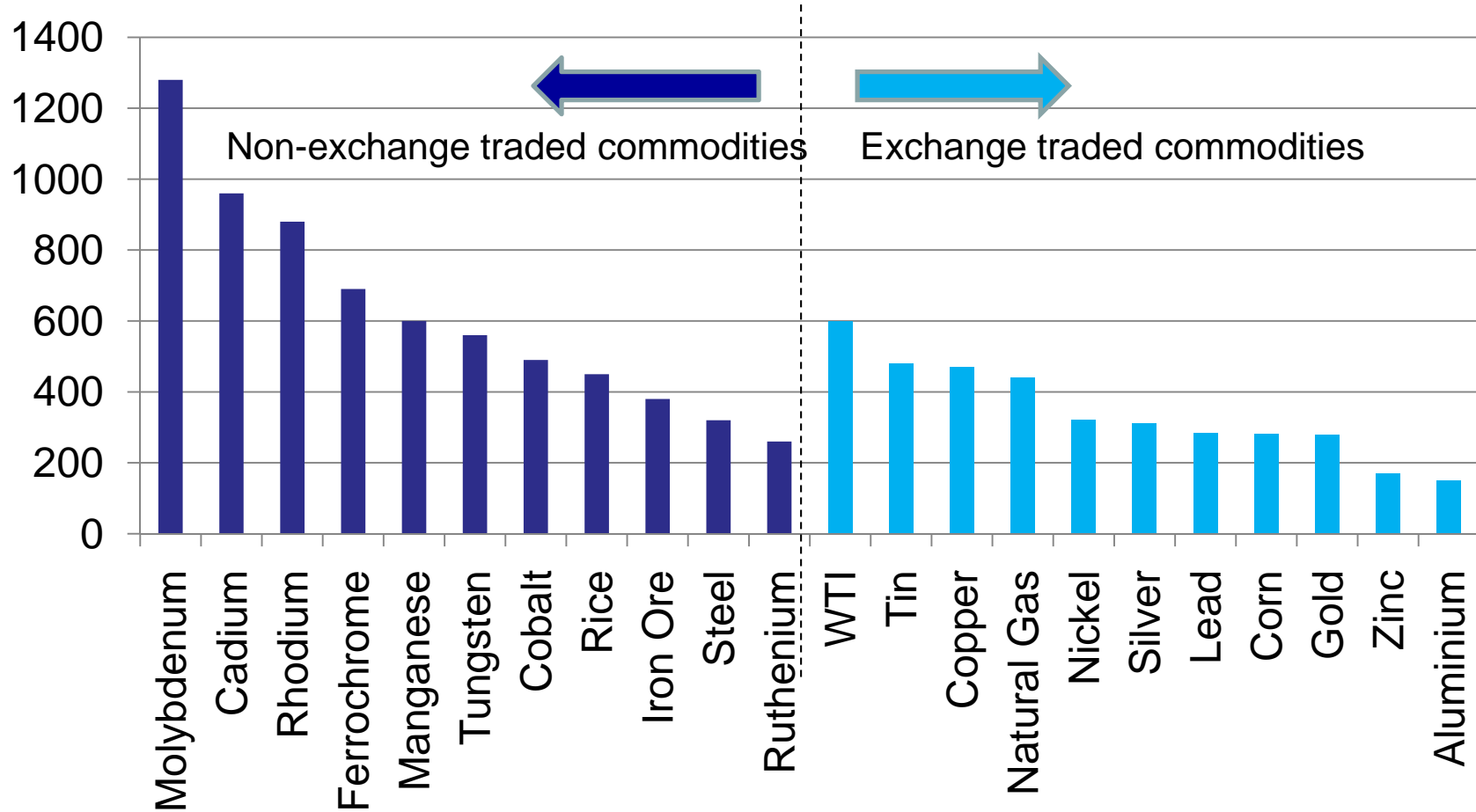
U.S. Onion Markets

US Onion Future prices, Chicago Onion (cents per 50lb bag)



Commodity Price Movements

% Change since end 2001



Source : Deutsche Bank

Salient Points on Bursa Malaysia's Palm Oil

1. Bursa Malaysia's CPO is world's pricing benchmark, viable market for risk management and speculation
2. 30 years of operation, daily liquidity of 15,000 contracts (375,000 tons) and 70,000 contracts (1.75m tons) open interest
3. Physically delivered contract, ensuring convergence with physical market and quality assurance
4. Globalisation - Migration to Globex
80+ countries, exposure to 1 million users

Possible Future Palm Oil Contracts



- Mini Crude Palm Oil
- Crude Palm Oil Options
- USD Palm Olein

List of Futures Brokers (www.bursamalaysia.com)

1. AmFutures Sdn Bhd
2. Innosabah Options Futures Sdn Bhd
3. Oriental Pacific Futures Sdn Bhd
4. JF Apex Securities Bhd
5. Inter-Pacific Securities Sdn Bhd
6. OSK Investment Bank Bhd
7. CIMB Futures Sdn Bhd
8. JPMorgan Securities (Malaysia) Sdn Bhd
9. Phillip Futures Sdn Bhd
10. ECM Libra Investment Bank Bhd
11. Kenanga Deutsche Futures Sdn Bhd
12. RHB Investment Bank Bhd
13. HDM Futures Sdn Bhd
14. LT International Futures (M) Sdn Bhd
15. Sunny Futures Sdn Bhd
16. HLG Futures Sdn Bhd
17. Okachi (M) Sdn Bhd
18. TA Futures Sdn Bhd
19. Interactive Futures Sdn Bhd

Thank You

www.bursamalaysia.com

jefftan@bursamalaysia.com

DID: +60320347084

Mobile: +60192615332